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May 23, 2013

MEMORANDUM

TO: Honorable Justin P. Wilson
Comptroller of the Treasury

FROM: James R. Arnette, Director
Division of Local Government Audit

SUBJECT: Report of Cash Shortages and Other Thefts and Judicial Actions in County
Offices/Departments as Reported in Annual Financial Reports for the Year
Ended June 30, 2012, and Certain Special Reports

The Division of Local Government Audit has prepared the enclosed schedules of cash shortages and other thefts and judicial actions reported in annual financial reports for the year ended June 30, 2012, and certain special reports for Tennessee's 89 county governments audited by our division and for six counties audited by CPA firms.

If you have any questions, please let me know.

Enclosures

This report is available at www.comptroller.tn.gov

**REPORT OF CASH SHORTAGES AND OTHER THEFTS AND JUDICIAL ACTIONS
IN COUNTY OFFICES/DEPARTMENTS AS REPORTED IN ANNUAL FINANCIAL
REPORTS FOR THE YEAR ENDED JUNE 30, 2012, AND CERTAIN SPECIAL REPORTS**

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Division of County Audit
Schedule of Cash Shortages in County Offices/Departments
As Reported in the Annual Financial Reports for the Year Ended June 30, 2012
and Certain Special Reports

County/Office or Department	Fiscal Year First Reported	Original Amount of Shortage	Beginning Report Cash Shortage	Increase in Shortage	Reduction of Shortage	Ending Report Cash Shortage	(1) Last Day of Fieldwork
<u>Campbell</u>							
1. Office of County Clerk	2011-12	155.11	0.00	155.11	(155.11)	0.00	1-17-13
<u>Cannon</u>							
2. Office of County Executive	2010-11	37,259.22	37,259.22	0.00	(36,259.22)	1,000.00	1-30-2013
<u>Cheatham</u>							
3. Office of Road Superintendent	2007-08	68,281.11	30,563.75	0.00	(4,850.00)	25,713.75	2-28-13
<u>Cocke</u>							
4. Office of Clerk and Master	1996-97	101,821.73	39,440.00	0.00	(974.87)	38,465.13	11-16-12
<u>Coffee</u>							
5. Office of Sheriff	2010-11	4,768.06	4,768.06	0.00	(4,768.06)	0.00	2-28-13
<u>Cumberland</u>							
6. Office of Sheriff	2010-11	1,437.00	1,437.00	0.00	(1,437.00)	0.00	2-8-13
<u>Dickson</u>							
7. Office of County Clerk	2009-10	13,193.83	2,776.00	0.00	0.00	2,776.00	9-27-12
8. Ambulance Service Department	2011-12	3,954.25	0.00	3,954.25	0.00	3,954.25	9-27-12
<u>Fayette</u>							
9. Office of Director of Schools	2009-10	177,629.93	17,129.93	0.00	(2,646.00)	14,483.93	3-7-13
<u>Fentress</u>							
10. Sharp/Alticrest Volunteer Fire Department	2007-08	2,032.00	544.00	0.00	0.00	544.00	10-26-12

**Division of County Audit
 Schedule of Cash Shortages in County Offices/Departments
 As Reported in the Annual Financial Reports for the Year Ended June 30, 2012
 and Certain Special Reports (Cont.)**

County/Office or Department	Fiscal Year First Reported	Original Amount of Shortage	Beginning Report Cash Shortage	Increase in Shortage	Reduction of Shortage	Ending Report Cash Shortage	(1) Last Day of Fieldwork
<u>Gibson</u>							
11. Office of Road Supervisor	2010-11	453.55	453.55	0.00	(453.55)	0.00	11-27-12
<u>Hardeman</u>							
12. Solid Waste Department	2007-08	3,032.47	1,332.47	0.00	(1,000.00)	332.47	9-20-12
<u>Hawkins</u>							
13. Office of County Mayor	2011-12	60.00	0.00	60.00	(60.00)	0.00	9-20-12
<u>Henry</u>							
14. Office of Sheriff	2005-06	162,656.91	93,693.00	0.00	(19,841.00)	73,852.00	11-27-12
15. Office of General Sessions Court Clerk	2011-12	29,291.10	0.00	29,291.10	0.00	29,291.10	11-27-12
<u>Hickman</u>							
16. Emergency Management Agency	2009-10	2,042.81	2,042.81	0.00	(2,042.81)	0.00	9-17-12
<u>Johnson</u>							
17. Office of County Mayor	2010-11	41,495.55	41,495.55	0.00	(41,495.55)	0.00	9-11-12
<u>Lake</u>							
18. Office of County Mayor	2009-10	202,344.63	53,344.63	0.00	(20,100.00)	33,244.63	11-30-12
<u>Madison</u>							
19. Rabies Control Office	2011-12	5,308.00	0.00	5,308.00	0.00	5,308.00	9-28-12
20. Office of Clerk and Master	2011-12	500.00	0.00	500.00	(500.00)	0.00	9-28-12
<u>Marion</u>							
21. Election Office	2009-10	27,170.93	27,170.93	0.00	(27,170.93)	0.00	9-24-12
22. Hometown Volunteer Fire Department	2009-10	94,823.91	87,023.91	0.00	0.00	87,023.91	9-24-12

**Division of County Audit
 Schedule of Cash Shortages in County Offices/Departments
 As Reported in the Annual Financial Reports for the Year Ended June 30, 2012
 and Certain Special Reports (Cont.)**

County/Office or Department	Fiscal Year First Reported	Original Amount of Shortage	Beginning Report Cash Shortage	Increase in Shortage	Reduction of Shortage	Ending Report Cash Shortage	(1) Last Day of Fieldwork
<u>McNairy</u>							
23. Office of Circuit Court Clerk	2007-08	13,528.19	3,390.50	0.00	0.00	3,390.50	10-24-12
24. Office of Sheriff	2011-12	9,782.36	0.00	9,782.36	0.00	9,782.36	10-24-12
<u>Monroe</u>							
25. Office of Sheriff	2008-09	30,646.08	10,000.00	0.00	0.00	10,000.00	1-29-13
26. Office of Sheriff	2009-10	10,651.30	10,651.30	0.00	0.00	10,651.30	1-29-13
27. Office of Circuit and General Sessions Courts Clerk	2011-12	3,476.24	0.00	3,476.24	(3,476.24)	0.00	1-29-13
<u>Montgomery</u>							
28. Office of Juvenile Court	2011-12	5,613.00	0.00	5,613.00	(5,613.00)	0.00	11-30-12
29. Animal Control Department	2011-12	2,139.00	0.00	2,139.00	(2,139.00)	0.00	11-30-12
<u>Moore</u>							
30. Office of Sheriff	2010-11	1,391.00	500.00	0.00	(500.00)	0.00	12-18-12
<u>Morgan</u>							
31. Office of County Clerk	2009-10	54,611.33	11,562.00	0.00	(2,804.00)	8,758.00	2-8-13
<u>Overton</u>							
32. Office of Director of Accounts and Budgets	2010-11	18,913.33	18,913.33	0.00	(18,913.33)	0.00	6-4-12
33. Office of Director of Schools	2010-11	1,567.60	1,567.60	0.00	(1,567.60)	0.00	6-4-12
34. Millard Oakley Public Library	2011-12	5,999.53	0.00	5,999.53	(2,289.58)	3,709.95	6-4-12
<u>Polk</u>							
35. Office of Director of Schools	2007-08	1,047.45	1,047.45	0.00	(1,047.45)	0.00	1-23-13

**Division of County Audit
 Schedule of Cash Shortages in County Offices/Departments
 As Reported in the Annual Financial Reports for the Year Ended June 30, 2012
 and Certain Special Reports (Cont.)**

County/Office or Department	Fiscal Year First Reported	Original Amount of Shortage	Beginning Report Cash Shortage	Increase in Shortage	Reduction of Shortage	Ending Report Cash Shortage	(1) Last Day of Fieldwork
<u>Rhea</u>							
36. Office of Circuit and General Sessions Courts Clerk	2010-11	5,297.00	5,297.00	0.00	(5,297.00)	0.00	12-12-12
<u>Rutherford</u>							
37. Offices of County Mayor and Sheriff	2009-10	14,551.56	4,151.56	0.00	(4,151.56)	0.00	10-31-12
<u>Sequatchie</u>							
38. Office of Sheriff	2006-07	8,668.79	7,793.26	0.00	0.00	7,793.26	10-10-12
39. Office of County Clerk	2007-08	4,248.51	360.00	0.00	(50.00)	310.00	10-10-12
<u>Smith</u>							
40. Office of Circuit and General Sessions Courts Clerk	2010-11	76,007.61	39,748.98	0.00	(39,748.98)	0.00	11-5-12
<u>Stewart</u>							
41. Office of General Sessions Court Clerk	2011-12	240.00	0.00	240.00	(240.00)	0.00	2-25-13
<u>Sullivan</u>							
42. Observation Knob Park	2011-12	58.00	0.00	58.00	(58.00)	0.00	2-22-13
<u>Sumner</u>							
43. Office of Director of Schools	2011-12	18,697.00	0.00	18,697.00	0.00	18,697.00	3-5-12
<u>Trousdale</u>							
44. Office of Clerk and Master	2011-12	300.00	0.00	300.00	(300.00)	0.00	1-24-13

**Division of County Audit
 Schedule of Cash Shortages in County Offices/Departments
 As Reported in the Annual Financial Reports for the Year Ended June 30, 2012
 and Certain Special Reports (Cont.)**

County/Office or Department	Fiscal Year First Reported	Original Amount of Shortage	Beginning Report Cash Shortage	Increase in Shortage	Reduction of Shortage	Ending Report Cash Shortage	(1) Last Day of Fieldwork
<u>Unicoi</u>							
45. Office of General Sessions Court Clerk	2005-06	22,222.00	12,891.50	0.00	(12,891.50)	0.00	10-5-12
46. Office of Director of Schools	2009-10	20,967.36	8,790.00	0.00	(1,050.00)	7,740.00	10-5-12
<u>Warren</u>							
47. Warren County Memorial Airport	2011-12	20,791.68	0.00	20,791.68	0.00	20,791.68	9-11-12
<u>Wayne</u>							
48. Office of Sheriff	2010-11	6,261.87	6,261.87	0.00	(6,261.87)	0.00	3-7-13
<u>Williamson</u>							
49. Recreation Department	2005-06	45,037.43	37,895.93	0.00	(1,890.00)	36,005.93	12-11-12
50. Office of County Clerk	2008-09	3,386.18	3,386.18	0.00	0.00	3,386.18	12-11-12
51. Animal Control Department	2009-10	106,446.17	106,446.17	0.00	(79.00)	106,367.17	12-11-12
52. Animal Control Department	2011-12	130.00	0.00	130.00	(130.00)	0.00	12-11-12
<u>53. Twenty-fourth Judicial District Drug Task Force</u>							
	2009-10	5,565.00	5,565.00	0.00	(5,565.00)	0.00	7-11-11
Total		<u>1,497,954.67</u>	<u>736,694.44</u>	<u>106,495.27</u>	<u>(279,817.21)</u>	<u>563,372.50</u>	

Footnote:

(1) The ending report cash shortage amount is as of the last day of field work.

Division of Local Government Audit
Explanations of Cash Shortages in County Offices/Departments
As Reported in Annual Financial Reports for the Year Ended June 30, 2012, and
Certain Special Reports

1. Campbell County - Office of County Clerk

On January 11, 2012, the county clerk informed auditors of suspected irregularities concerning receipts, deposits, and daily collection logs in the county clerk's satellite office in Jellico. As a result of these irregularities, we extended our audit procedures to include transactions from July 1, 2010, through January 11, 2012. We conducted interviews with employees, reconciled receipts with deposits, and examined the audit logs. Also, we performed a cash count and discovered that operating cash on hand totaling \$155.11 was missing from the vault on January 11, 2012. However, we were unable to determine who may have taken the funds. The county clerk liquidated the cash shortage of \$155.11 from personal funds.

2. Cannon County - Office of County Executive

A special report on the Cannon County REACH After-School Program dated February 27, 2012, for the period July 1, 2008, through March 31, 2011, reported a cash shortage of at least \$37,259.22 existed at March 31, 2011. This cash shortage resulted from the executive director of the REACH program using program funds inappropriately. On October 4, 2012, the former director pled guilty to theft over \$10,000 and was sentenced to five years' probation and ordered to pay restitution totaling \$26,170. On October 11, 2012, the county received \$36,259 from its insurance provider, which represents the amount of the shortage less the county's \$1,000 deductible. The unpaid cash shortage totals \$1,000.

3. Cheatham County - Office of Road Superintendent

The audit of Cheatham County for the 2007-08 year reported a cash shortage of \$68,281.11 in the Highway Department. Our investigation revealed that from February 5, 2007, through December 18, 2007, the Highway Department bookkeeper fraudulently issued 16 vendor checks totaling \$68,281.11 for personal use. On August 15, 2008, the bookkeeper was found guilty of theft of \$60,000 or more, was sentenced, and ordered to pay restitution totaling \$68,211.11 to the Highway Department. The unpaid cash shortage totals \$25,713.75.

4. Cocke County - Office of Clerk and Master

The audit of the Constitutional Officers – Agency Fund for the 1996-97 year reported details of a \$101,821.73 cash shortage in the Office of Clerk and Master. A former clerk and master pled guilty to theft and conversion of office funds and was ordered to pay restitution totaling \$101,821.73. His surety bond company paid the office \$50,000 during a previous year, and as of June 30, 2012, the former clerk and master has paid \$13,357 toward liquidating the remaining shortage, leaving a balance due the county of \$38,465.13.

5. **Coffee County - Office of Sheriff**

The audit of Coffee County for the 2010-11 year reported a cash shortage of \$4,768.06 in the Sheriff's Department. This cash shortage was the result of certain employees being paid for time not worked. This shortage was not collected during the year ended June 30, 2012, and county officials advised that the county does not intend to pursue the matter further, and will make no attempt to collect these funds. Therefore, the county has written these funds off.

6. **Cumberland County - Office of Sheriff**

The audit of Cumberland County for the 2010-11 year reported a cash shortage of \$1,437 existed in collections received at the Sheriff Department's Juvenile Detention Center for the period July 1, 2007, through April 5, 2010. Records revealed that \$3,296 was collected at the juvenile facility; however, only \$1,859 was remitted to and deposited into the sheriff's official bank account. County officials advised that this shortage will not be filed against the county's insurance carrier and will not be prosecuted. Therefore, the county has written these funds off.

7. **Dickson County - Office of County Clerk**

A special report dated March 8, 2010, for the period January 1, 2009, through September 30, 2009, reported a cash shortage of \$13,193.83. Our investigation discovered numerous individual transactions had been manipulated and/or altered with the funds diverted from the office for the personal use of an employee. On August 16, 2010, the defendant pled guilty and was sentenced to four years of probation and ordered to pay restitution of \$15,470, which includes \$2,276 for audit costs to Dickson County. The county's insurance carrier paid the county \$12,693.83 on September 29, 2010, which represents the shortage less a \$500 deductible. The unpaid cash shortage totals \$2,776.

8. **Dickson County – Ambulance Service Department**

In March 2012, the Dickson County Finance Office conducted an internal investigation at the county's Ambulance Service Department and discovered a \$125 cash shortage. As a result of this investigation, the Finance Office contacted our office on March 20, 2012. Our investigation concluded that from December 3, 2009, through March 23, 2012, receipts totaling \$3,954.25 were not deposited or otherwise accounted for. In addition, our investigation of the Ambulance Service Department noted the following deficiencies that are the result of a lack of management oversight, which increases the risks of theft:

- A. Duties were not segregated adequately among the employees in the Ambulance Service Department. Employees responsible for maintaining the accounting records in the department were also involved in receipting and depositing funds. Accounting standards provide that internal controls be designed to give reasonable assurance of the reliability of financial reporting and of the effectiveness and efficiency of operations.

Exhibit B

- B. Several receipts were manually altered to indicate that the receipted funds were turned over to a collection agency. However, the funds were never received by the collection agency, nor were the funds deposited by the Ambulance Service Department. Section 39-16-504, *Tennessee Code Annotated (TCA)*, states that it is unlawful to “knowingly make a false entry in, or false alteration of, a governmental record.”
- C. In some instances, ambulance service funds were not deposited within three days of collection. Section 5-8-207, *TCA*, requires county officials to deposit public funds within three days of receiving the funds.
- D. Delinquent accounts receivable were not processed in accordance with the county’s policy. The county’s policy provides that if payment is not received within 90 days from date of service or a payment plan has not been executed, the account is to be forwarded to a collection agency. However, auditors discovered numerous accounts with balances over 90 days old that were never forwarded to a collection agency. Additionally, delinquent accounts and write-offs were not reviewed by management to ensure that they were handled properly.
- E. Accounts receivable reports were not produced, and receivables were not reviewed by management or reconciled on a regular basis, resulting in inaccurate receivable balances. Due to these internal control deficiencies, Dickson County contracted with EMS Consultants, Inc., to evaluate, reconcile, and verify account balances. As a result of the evaluation, EMS determined that Dickson County had lost potential revenue totaling \$2,348,683 between February 19, 2006 and December 30, 2011, because claims were not filed in a timely manner.

9. Fayette County – Office of Director of Schools

On April 27, 2010, a special report was issued on the Fayette County School Food Service Department for the period July 1, 2007, through December 15, 2009. This report disclosed that the food service supervisor circumvented purchasing procedures, resulting in a cash shortage of \$142,433. In addition, the food service supervisor altered time sheets of a part-time cafeteria worker, resulting in a cash shortage of \$35,196.93. In May 2010, the School Department’s insurance carrier paid the department \$149,500. The unpaid cash shortage totals \$14,483.93.

10. Fentress County - Sharp/Alticrest Volunteer Fire Department

The audit of Fentress County for the 2007-08 year reported a cash shortage of \$2,032 at the Sharp/Alticrest Volunteer Fire Department. This shortage resulted from the misappropriation of county funds by a captain in the volunteer fire department. On September 24, 2008, the captain pled guilty to one count of theft over \$500 and one count of theft over \$1,000. The former captain was ordered to pay restitution of \$2,032 to Fentress County and \$1,556 to the Sharp/Alticrest Fire

Department (\$150 monthly payments beginning November 1, 2008) plus court costs and was sentenced to four years of unsupervised probation. The former captain made only one payment during the year ended June 30, 2009, and in July 2009, the court issued a petition to revoke probation. Subsequent to June 30, 2010, the defendant sustained injuries that do not allow him to work; therefore, the court has suspended payments until the defendant is medically cleared to return to work. Therefore, the balance of restitution owed to Fentress County remained \$544.

11. **Gibson County – Office of Road Supervisor**

The audit of Gibson County for the 2010-11 year reported a cash shortage of \$453.55 at the Highway Department. This shortage resulted from the sale of a used county-owned culvert by two Highway Department employees to a local recycling company. On October 4, 2011, these two employees reimbursed the Highway Department \$453.55.

12. **Hardeman County - Solid Waste Department**

The audit of Hardeman County for the 2007-08 year reported a cash shortage totaling \$3,032.47 in the Solid Waste Disposal Fund. This cash shortage is composed of 1) collections received at the landfill and delivered to the Solid Waste Office totaling \$2,152.97 that were not entered into the accounting system or deposited with the county trustee, and 2) receipts issued by the Solid Waste Office for monthly collections of landfill fees assessed to residents and businesses totaling \$879.50 that were not deposited with the county trustee. The bookkeeper was sentenced on August 5, 2010, for theft of property and ordered to pay restitution. As of the date of this report, the bookkeeper had paid restitution of \$2,700 leaving an unpaid shortage of \$332.47.

13. **Hawkins County – Office of County Mayor**

The county mayor submitted two fraud reporting forms to the state Comptroller's Office in August 2012, related to four thefts that occurred at the Highway 113 convenience center in July and August 2012. These thefts were reported to the Hawkins County Sheriff's Department, and incident reports were completed. Approximately \$600 worth of scrap metal, including chairs, lawn and garden equipment, and batteries, plus a surveillance camera were removed from the convenience center. In one instance, an employee resigned and was not charged. In the other three instances, a former employee was charged with three counts of burglary and one count of theft under \$500. The former employee pled guilty to the burglary and theft charges on September 26, 2012, and was ordered to pay restitution of \$60, which he paid.

14. **Henry County - Office of Sheriff**

The audit of Henry County for the 2005-06 year reported a cash shortage of \$162,658 in the General (\$118,878), Drug Control (\$23,502), and General Capital Projects (\$20,278) funds as a result of irregularities in the Office of Sheriff. The former sheriff, former business manager, and former owner of Elite Firearms all pled guilty to various charges and received various sentences and fines. The three

defendants have been ordered to pay restitution totaling \$71,512. This amount is net of estimated auction proceeds of items recovered from the former sheriff. The actual auction proceeds received during the 2008-09 year totaled \$12,205. On November 21, 2011, the Henry County Commission voted to agree to a consent judgment in the county's effort to try to recover money from the former sheriff basically agreeing to settle a civil lawsuit for \$160,000. During the 2011-12 fiscal year, restitution was received from the former sheriff totaling \$19,841. As of June 30, 2012, the cash shortage totaled \$73,852, which included the General (\$30,072), Drug Control (\$23,502), and General Capital Projects (\$20,278) funds.

15. Henry County - Office of General Sessions Court Clerk

On August 19, 2011, the general sessions court clerk contacted our office after discovering certain funds received by mail had not been recorded by the bookkeeper. On August 22, 2011, auditors performed a cash count of the clerk's office. This cash count revealed that the bookkeeper's cash drawer was short by \$52.60. An examination of a bank deposit made by the office on August 17, 2011, revealed the composition of cash and checks posted in the records did not agree with the composition of cash and checks from bank deposit records. The compromised deposit contained checks that were not reflected in office records. On August 25, 2011, during an interview between the bookkeeper and auditors, the bookkeeper admitted taking cash from office funds and replacing this cash with checks received in the mail for civil cases that had not been recorded. As a result of this admission, auditors expanded the investigation to include the period January 1, 2007, through August 19, 2011. Our investigation determined that 224 deposits out of 832 deposits had been compromised during the period examined. During this period, the bookkeeper removed cash totaling \$29,238.50 and substituted checks totaling the same amount that had not been recorded. Therefore, the cash shortage totaled \$29,291.10 on August 19, 2011, (\$29,238.50 plus \$52.60). On August 26, 2011, the clerk terminated the bookkeeper's employment with the office. This finding has been discussed with the district attorney general.

The table below details the cash shortage by calendar year:

Exhibit B

Calendar Year	Cash Shortage	Deposits Made	Deposits Compromised
2007	\$ 2,966.00	91	16
2008	5,788.00	174	48
2009	7,415.50	203	57
2010	7,899.50	225	64
2011	5,169.50	139	39
Total Deposits		<u>832</u>	<u>224</u>
Deposit Shortage	\$ 29,238.50		
Cash Count Shortage, 8-22-11	<u>52.60</u>		
Total Cash Shortage	<u>\$ 29,291.10</u>		

Our examination disclosed several internal control weaknesses that allowed the cash shortage to occur and go undetected:

- A. The bookkeeper used a scheme known as substitution to manipulate transactions to remove monies from the office. Substitution occurs when a transaction is recorded and paid for with cash, and another transaction is paid with a check but is not recorded in the records. The employee removes the cash and substitutes the check payment for the payment that was made in cash.
- B. The bookkeeper altered the records of the office. The clerk uses the State of Tennessee's TnCIS accounting application system for record keeping. This system automatically assesses appropriate filing fees due on civil cases when a case is opened. The employee was able to go into the civil case adjustment ledger in the accounting system and zero out the filing fees that were assessed, which would then reflect a zero balance due by the litigant(s).
- C. The bookkeeper discarded and/or destroyed some check stubs that were attached to checks that were received in the mail but were not recorded. The office has a policy of retaining and filing all check stubs in the applicable case file. We were able to verify this noncompliance through the discovery of a batch of approximately 50 check stubs found in the bookkeeper's desk drawer, which were traced back to mail-in logs that were not recorded in the records, but were found in bank deposits where these checks were substituted for cash. In addition, there were several other checks received in the mail that were discovered in bank deposits that were not receipted; however, we could not locate any check stubs. We know that a majority of these mail-in checks that were not recorded had stubs attached since the checks made payable to the court came from the same law firms on behalf of their clients.

16. Hickman County - Emergency Management Agency

The audit of Hickman County for the 2009-10 year reported that the Tennessee Bureau of Investigation conducted an investigation of the Hickman County Emergency Management Agency (EMA) and the Hickman County Emergency Medical Services (EMS), which revealed that the director of the EMA, and the director of the EMS, misappropriated drugs and medical supplies for their personal use. These misappropriations for personal use resulted in a cash shortage of \$2,042.81. On October 26, 2010, the director of the EMS pled guilty to official misconduct, received two years supervised probation, and was ordered to pay restitution of \$840.25. Subsequently, his restitution was lowered to \$680.25. On December 21, 2010, the director of the EMA pled guilty to official misconduct, received two years supervised probation, and was ordered to pay restitution of \$1,202.56. The director of the EMA paid \$1,202.56 in restitution during 2011-12, and the director of the EMS paid \$680.25 in 2012-13.

17. Johnson County - Office of County Mayor

The audit of Johnson County for the 2010-11 year reported a cash shortage of \$41,495.55 in the County Mayor's Office as of August 24, 2011. This cash shortage resulted from an employee of the County Mayor's Office not remitting solid waste transfer station collections (\$40,695.55) to the county trustee and not remitting sewer inspection collections (\$800) to the State Department of Environment and Conservation. The employee's position was terminated, and he was subsequently indicted by a grand jury on criminal charges, including theft and official misconduct, in connection with the cash shortage. On September 24, 2012, the former employee pled guilty to several charges including the theft of \$41,495.55. During the year, the county's insurance company paid \$40,495.55, and the county mayor paid \$1,000 (amount of insurance deductible) from personal funds to liquidate the cash shortage.

18. Lake County - Office of County Mayor

The audit of Lake County for the 2009-10 year reported irregularities in the Lake County Mayor's Office involving checks issued to a payee named Purchase Power. Purchase Power is a payment mechanism provided by the Pitney Bowes Company enabling its customers to pay for postage and other office related expenses. Our investigation revealed that from October 18, 2005, through July 26, 2010, the county mayor's bookkeeper issued 191 vendor checks totaling \$202,344.63 from the county's General Fund for personal use. The county's insurance company paid the county \$149,000 on October 12, 2010, leaving a balance due the county of \$53,344.63. The bookkeeper pled guilty to theft over \$60,000 on January 24, 2011, and was sentenced to ten years in the Tennessee Department of Correction with probation after serving one year in the Lake County jail. In addition, the bookkeeper was ordered to pay the county restitution of \$53,344.63. Restitution totaling \$20,100 was received by Lake County during the 2011-12 year leaving a balance due of \$33,244.63.

19. Madison County - Rabies Control Office

The audit for 2011-12 revealed that four receipt books were missing from the Rabies Control Office. Using collection amounts from a sample of ten receipts books we

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determined that the average amount of collections reflected in each receipt book was \$1,327. Therefore, there is an estimated cash shortage of \$5,308 (four receipt books at \$1,327 each equals \$5,308).

<u>Book Numbers</u>	<u>Amount</u>
13801 - 13850	\$ 1,076
13851 - 13900	1,466
13901 - 13950	1,354
13951 - 14000	1,436
14051 - 14100	1,343
14101 - 14150	1,271
14151 - 14200	1,286
14201 - 14250	1,201
14251 - 14300	1,458
14310 - 14350	<u>1,278</u>
Total	<u>\$ 13,169</u>
Average Collections from 10 Receipts Books	<u>\$ 1,327</u>
Estimated Collections - four missing books	<u>\$ 5,308</u>

20. Madison County – Office of Clerk and Master

On May 24, 2012, the clerk and master discovered that cash totaling \$500 from May 22, 2012, receipts was missing. As a result, on May 29, 2012, the clerk and master informed our office of this cash shortage and filed a Fraud Reporting Form. Subsequently, our office performed an investigation; however, due to a lack of internal controls, we were unable to determine who may have taken the funds.

The office maintains 12 individual cash drawers for the employees. Instead of being located at each employee’s workstation, these cash drawers were located in an unlocked safe. During the workday, employees went into the safe to place collections into their respective cash drawer. At the close of business, the employees stored the receipts for the day in envelopes in the safe. These envelopes and the cash drawers were locked in the safe overnight.

The following internal control deficiencies provided opportunity for these funds to be misappropriated:

- A. During the workday, all employees’ cash drawers were stored in an unlocked safe.
- B. All employees went into the safe to access their cash drawer.

- C. All employees, as well as numerous other individuals, had access to the room where the unlocked safe was located.
- D. Although the safe was locked overnight, almost all employees had keys to the office and knew the combination to the safe.
- E. Cash, which had been taken out of the safe, was left unattended on the office counter during the daily checkout and deposit slip preparation.

The clerk and master liquidated the cash shortage of \$500 on May 30, 2012, from personal funds.

21. Marion County - Election Office

A special report dated August 25, 2010, for the period July 1, 2003, through March 31, 2010, reported that a cash shortage of \$27,170.93 existed in the Marion County Election Office. This cash shortage resulted from 107 warrants being improperly issued to 34 individuals for work that was not performed for the Election Office. The administrator of election was indicted by the grand jury on October 4, 2010, and pled guilty on May 21, 2012. The administrator of election was ordered to pay \$10,000 in restitution, which she paid on June 21, 2012. A claim for the balance was denied by the county's insurance carrier; therefore, the remaining \$17,170.93 has been written off by the county.

22. Marion County - Hometown Volunteer Fire Department

A special report dated October 20, 2010, for the period January 1, 2005, through April 12, 2010, reported a cash shortage of at least \$94,823.91 in the Hometown Volunteer Fire Department (HVFD). This cash shortage resulted from checks written on HVFD bank accounts to pay personal expenses of the secretary/treasurer (\$92,620.25), together with \$2,203.66 cash withheld from bank deposits of private donations and a county contribution. The secretary/treasurer remitted personal funds totaling \$7,800 to the HVFD on April 12, 2010, leaving a cash shortage balance of \$87,023.91. The secretary/treasurer was indicted by the grand jury on October 4, 2010, and is awaiting trial.

23. McNairy County - Office of Circuit Court Clerk

The audit of McNairy County for the 2007-08 year reported a cash shortage of \$13,528.19 from eight bank deposits in the Office of Circuit Court Clerk. A former office employee admitted taking the funds and has restored the \$13,528.19 in missing funds to the office. On June 20, 2008, the former employee pled guilty in Circuit Court to official misconduct, was sentenced to two years in state prison, and immediately granted probation. In addition, she was ordered to pay \$4,405 for restitution to the county for audit expenses. The former employee had paid \$1,014.50 on the restitution for the audit expenses leaving unpaid restitution of \$3,390.50.

24. McNairy County - Office of Sheriff

The following deficiencies were noted during our examination of the office's accounting records. These deficiencies contributed to a cash shortage of \$9,782.36 at August 2, 2012, in the prisoner commissary account. These deficiencies exist due to a lack of understanding of internal controls, generally accepting accounting principles, state statutes, and sound business practices.

- A. The office had a cash shortage of \$9,782.36 in the commissary operation at August 2, 2012. This cash shortage consisted of the \$8,536.66 from a kiosk machine identified by the TBI and an additional cash shortage of \$1,245.07 in the commissary operation that remained undetected by the Sheriff's Office and was not discovered until our audit was performed. We were unable to determine the exact amount of the cash shortage as of June 30, 2012, because of inadequate records. Due to these deficiencies, there could be other collections that have not been accounted for properly and have not yet been detected. The total cash shortage has been discussed with the district attorney general.
- B. Accounting records were not properly maintained for the prisoner commissary account. A vendor provided software to maintain subsidiary ledgers for the commissary account; however, these ledgers had not been posted to the official cash journal or reconciled with the bank account. The Sheriff's Department also did not include the commissary activity on its annual financial report. Receipts (\$108,025) and disbursements (\$102,325) for commissary operations were determined by substantive testing and alternative auditing procedures and have been included in the financial statements of this report.
- C. Bank statements were not reconciled with general ledger accounts currently. During our audit, we determined that as of May 1, 2012, reconciliations had not been performed since September 2011, for the primary bank account (activities of the office other than commissary); however, these bank statements were reconciled as of June 30, 2012. Additionally, bank statements for the commissary account had not been reconciled. Sound business practices require the reconciliation of bank statements with general ledger accounts on a current basis to ensure that all cash collections and disbursements are recorded in the accounting records accurately. The failure to currently reconcile bank statements with the general ledger allows errors to remain undiscovered and uncorrected.
- D. The office did not deposit collections to the commissary bank account on a timely basis. During the period under examination, commissary funds were held for over two months before being deposited to the bank. Sound business practices require funds to be promptly deposited to the official bank account. Failure to deposit collections on a regular

basis weakens internal controls over funds and increases the risks for loss or theft.

- E. The office did not remit commissary profits to the county trustee from July 2011, through January 2012. The state attorney general opined in November 1989 (Attorney General Opinion U89-143) that profits earned from commissary operations are local revenues and should be administered as any other local revenue. Section 8-24-103, *Tennessee Code Annotated*, provides that all funds earned by the Sheriff's Department should be reported to the county monthly.

25. Monroe County - Office of Sheriff

The audit of Monroe County for the 2008-09 year reported a cash shortage of \$30,646.08 in the Office of Sheriff as of October 22, 2008. This cash shortage resulted from the failure to account properly for all collections resulting from operations of the commissary. The county's insurance company paid the county \$20,646.08 in May 2009 (the cash shortage less a \$10,000 deductible). On January 15, 2010, the former commissary bookkeeper was indicted by the county's grand jury for theft over \$10,000. The original case was dismissed on July 20, 2011. However, the bookkeeper was re-indicted, and a court hearing on the charges was reset for March 18, 2013.

26. Monroe County - Office of Sheriff

The audit of Monroe County for the 2009-10 year reported a cash shortage of \$10,651.30 existed in the Sheriff's Office as of June 30, 2010. Commissary collections for several days between February 11, 2010, and April 19, 2010, had not been deposited to the office bank account or otherwise accounted for properly. There have been no criminal charges filed relating to this shortage as of the date of the county's audit report. The county has filed a claim with its insurance carrier and is awaiting their response.

27. Monroe County - Office of Circuit and General Sessions Courts Clerk

During our annual audit of the Office of Circuit and General Sessions Courts Clerk for the year ended June 30, 2012, we discovered discrepancies related to bank deposits; therefore, we extended our procedures to include transactions through September 13, 2012. Our extended procedures identified a cash shortage of \$3,476.24 (\$3,055.24 in General Sessions Court and \$421 in Circuit Court) at September 13, 2012.

The bookkeeper for the Office of Circuit and General Sessions Courts Clerk reconciled the office bank accounts and on occasion took deposits to the bank. This lack of segregation of duties provided the bookkeeper with the opportunity to conceal that he had failed to deposit all collections. We performed a cash count on September 13, 2012, and compared the cash on hand with amounts that the records indicated should be on hand. This comparison revealed that collections totaling \$3,055.24 from General Sessions Court for September 4, 2012 (\$1,989.91) and

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September 10, 2012 (\$1,065.33) had not been deposited and were not in the office as cash on hand.

In addition to the cash diverted from General Sessions Court, we found that a deposit dated August 31, 2012, in the Circuit Court bank account contained a check totaling \$421 that was drawn on the same Circuit Court bank account. This check was payable to an attorney and dated November 10, 2011. It appears that the check had not been claimed by the attorney, and the bookkeeper had deposited the check back into the office bank account and removed an equal amount of cash from court collections. Consequently, the amount of the check (\$421) has been included as part of the cash shortage.

When we discovered discrepancies related to bank deposits in General Sessions Court, we questioned the bookkeeper regarding a reconciling item for \$1,000, which appeared on the June 30, 2012, bank reconciliation. The bookkeeper claimed that the reconciling item related to funds had been “lost” from his vehicle when he was taking a deposit to the bank. We then accompanied the bookkeeper to inform the circuit and general sessions courts clerk of the funds that the bookkeeper claimed to have lost. When asked, the bookkeeper could not remember when the loss occurred. The circuit and general sessions courts clerk immediately placed the bookkeeper on leave pending the investigation of the missing funds. The clerk also notified the District Attorney General’s Office and the Tennessee Bureau of Investigation.

Our examination of the records indicated that the bookkeeper had diverted funds from both General Sessions Court and Circuit Court at various times during the period under audit; however, a portion of these funds had been subsequently restored. The following table reflects the dates when deposits did not equal daily collections. The last column reflects the cumulative balance of collections that were unaccounted as of each of those dates.

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Date	Court	Deposits Over (Under) Receipt Amounts	Adjustments	Cumulative Balance
2-6-12	General Sessions	\$ (1,000.00)	\$ 0.00	\$ (1,000.00)
3-30-12	General Sessions	1,000.00	0.00	0.00
6-1-12	General Sessions	(1,000.00)	0.00	(1,000.00)
6-1-12	Circuit	(923.40)	0.00	(1,923.40)
7-2-12	Circuit	923.40	0.00	(1,000.00)
7-2-12	General Sessions	(984.60)	0.00	(1,984.60)
7-25-12	Circuit	(723.00)	0.00	(2,707.60)
8-31-12	Circuit	723.00	(421.00) (1)	(2,405.60)
8-31-12	General Sessions	1,984.60	(1,984.60) (2)	(2,405.60)
9-4-12	General Sessions	(1,989.91)	1,984.60 (2)	(2,410.91)
9-10-12	General Sessions	(1,065.33)	0.00	(3,476.24)
Total		\$ (3,055.24)	\$ (421.00)	\$ (3,476.24)

- (1) This day's deposit included a check for \$421 dated November 10, 2011, that was drawn on the Circuit Court bank account and payable to an attorney.
- (2) As discussed below, the deposit dated August 31, 2012, included funds that were recorded as September receipts.

As shown in the table, the bookkeeper attempted to conceal the diverted collections in multiple ways. For instance, on the same day (July 2, 2012) that collections of \$923.40 were restored to Circuit Court, collections of \$984.60 were diverted from General Sessions Court. During the afternoon of August 31, 2012, the clerk's office closed out collections for the day and began dating receipts the following business day (September 4, 2012). After the final deposit for August receipts was made, the bookkeeper made a separate deposit of \$1,984.60, also dated August 31, 2012, which appeared to restore the balance of collections that had been previously diverted. However, that deposit consisted of collections received after the month-end cutoff, and the associated receipts for the deposit were dated in September. This allowed the bookkeeper to temporarily conceal the shortage at the end of August 2012. Also, on August 31, 2012, an attempt was made to conceal a portion of the shortage in Circuit Court by depositing the \$421 unclaimed check drawn on the Circuit Court bank account as previously discussed.

Subsequent to being placed on leave, the bookkeeper made cash deposits on September 17, 2012, into the General Sessions Court bank account to liquidate \$3,055.24 of the cash shortage. The portion of the cash shortage related to the diverted Circuit Court check (\$421) was collected by the circuit and general sessions courts clerk from the bookkeeper in November 2012 after we informed the clerk of the discrepancy.

28. Montgomery County – Office of Juvenile Court

In the spring of 2012, the Comptroller of the Treasury's Office was notified of an ongoing investigation regarding embezzlement of restitution payments collected by a Montgomery County Juvenile Court Probation Officer. The allegation was investigated by the Tennessee Bureau of Investigation and resulted in a probation officer resigning his employment with Montgomery County on July 29, 2011. During the course of the investigation and before charges were initiated, the former probation officer made restitution payments to the victims totaling \$5,613. The former probation officer was indicted by the Montgomery County grand jury on May 8, 2012, on charges of official misconduct and theft over \$5,000. On June 27, 2012, he pled guilty to official misconduct and agreed to pre-trial diversion. He received a suspended sentence of three years along with three years of supervised probation.

29. Montgomery County – Animal Control Department

The Montgomery County Animal Control Department charges fees for adoptions, impound, spay, neuter, etc., and accepts donations. These collections are transported by courier to the Montgomery County Office of Accounts and Budgets for deposit with the county trustee. Auditors examined receipts, deposits, and cash disbursements of the Animal Control Department from July 1, 2011, through June 30, 2012. This examination concluded that receipts totaling \$2,139 were not deposited with the county trustee or otherwise accounted for.

Accounting standards provide that internal controls be designed to safeguard assets. Our audit of the Animal Control Department noted the following deficiencies that are the result of a lack of management oversight, which increases the risks of theft:

- A. Duties were not segregated adequately. Employees who were responsible for maintaining accounting records were also involved in receipting and depositing funds. Accounting standards provide that internal controls be designed to give reasonable assurance of the reliability of financial reporting and of the effectiveness and efficiency of operations.
- B. Multiple employees operated from the same cash bags and cash envelopes maintained at the Animal Control Department. Also, funds were not adequately safeguarded because collections maintained in these bags and envelopes were accessible to all employees. Sound internal controls dictate that each employee have their own cash drawer, start the day with a standard fixed amount of cash, and remove all but that beginning amount at the end of each day. This amount should be verified to the employee's receipts at the end of each day. Failure to adhere to this control regimen greatly increases the risk that a cash shortage may not be detected in a timely manner. Furthermore, in the event of a cash shortage, management would not be able to determine who was responsible for the shortage because multiple employees were working from one cash drawer.

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- C. The Animal Control Department did not issue official receipts for some donations as required by Section 9-2-104, *Tennessee Code Annotated (TCA)*. Department personnel advised that receipts were not issued for donations unless requested. Also, in some instances, the office used generic receipts that did not display the official name of the office. The failure to issue receipts for all collections and the use of generic receipts exposes the office to risks that collections may not be accounted for properly.
- D. Official prenumbered receipts were issued for collections other than some donations as described above; however, we noted some instances where the duplicate copy of the receipt was missing. Section 9-2-103, *TCA*, requires official prenumbered receipts to be issued when collections are received and duplicate receipts to be maintained by the office. Without access to duplicate receipts, we were unable to determine if all funds had been accounted for properly.
- E. Receipts marked as “void” did not always have the original copy attached to the duplicate copy.
- F. Several duplicate receipts were manually altered with ink and/or correction fluid to change the original information. Section 39-16-504, *TCA*, states that it is unlawful to “knowingly make a false entry in, or false alteration of, a governmental record.”
- G. Collections for the Animal Control Department were not always deposited within three days of collection. Section 5-8-207, *TCA*, requires county officials to deposit public funds within three days of collection.
- H. Auditors were advised by department personnel that some refunds to customers were made from available cash on hand. Section 5-8-207, *TCA*, requires disbursements to be made by official prenumbered checks. In addition, the Montgomery County Commission did not appropriate these cash disbursements. Section 5-9-401, *TCA*, provides that “All funds from whatever source derived, including, but not limited to, taxes, county aid funds, federal funds, and fines, that are to be used in the operation and respective programs of the various departments, commissions, institutions, boards, offices and agencies of county governments shall be appropriated to such use by the county legislative bodies.”

On July 16, 2012, management terminated the employment of the director of the Animal Control Department for failure to perform the essential functions of the position of a department head. Due to a lack of internal controls, we were unable to determine who may have taken the funds. Montgomery County’s insurance deductible is \$2,500; therefore, the county has written off the remaining \$2,139.

30. Moore County - Office of Sheriff

The audit of Moore County for the 2010-11 year reported that several county and personal items were stolen from a deputy sheriff's personal vehicles parked at his residence. According to the offense report, missing items belonging to Moore County totaled \$1,391. Moore County filed an insurance claim, and subsequently received a check for \$891, which is less a \$500 deductible. The county wrote-off the deductible amount in 2011-12.

31. Morgan County - Office of County Clerk

A special report dated February 10, 2011, for the period July 1, 2009, through December 22, 2010, reported a cash shortage of \$54,611.33 at December 14, 2010. The state Comptroller's Office conducted a special investigation with the assistance of the Tennessee Bureau of Investigation resulting in the above-noted cash shortage. Subsequently, the county clerk, deposited \$47,200.71, leaving an unpaid cash shortage of \$7,410.62 at December 22, 2010. On February 18, 2011, the Criminal Court of Morgan County accepted a plea of guilty to charges of official misconduct and violation of the three-day deposit law. The county clerk was ordered to pay the remaining cash shortage, the cost of the extended audit (\$11,562), and court costs. Also, on February 18, 2011, the clerk resigned as Morgan County Clerk and submitted payment of \$6,500 to be applied toward the agreed obligations. On March 17, 2011, the former clerk paid the remaining cash shortage balance of \$910.90 and \$610.50 in court costs. However, there have been no payments toward the extended audit cost of \$11,562. During January 2013, the court credited the former county clerk with \$2,804 toward the amount owed for the extended audit costs, leaving a balance of \$8,758 to be paid.

32. Overton County - Office of Director of Accounts and Budgets

The audit of Overton County for the 2010-11 year reported a cash shortage in the Solid Waste Department of \$18,913.33. This shortage was the result of the misappropriation of funds collected from the sale of scrap metal by employees of the department. On April 17, 2012, the county received a judgment against the solid waste employee who was ordered to repay \$14,184.96 to the county over a period of 96 months. In April 2012, the former employee remitted a payment of \$13,500 to the county. According to the county attorney and the county executive, the county accepted this amount as complete payment and does not intend to further pursue the outstanding balance of \$684.96.

33. Overton County - Office of Director of Schools

The audit of Overton County for the 2010-11 year reported that during the period January 1, 2008, through August 19, 2011, an employee of the Maintenance Department was paid \$2,046.40 in cash and checks from a recycling company for the sale of scrap metals. A check for \$478.80 was subsequently remitted to the Board of Education, leaving an unaccounted for balance of \$1,567.60. The employee advised us that the \$1,567.60 was used to purchase water, coffee, soft drinks, snacks, and employee lunches. The employee further advised that some of the money may have been used as benevolence funds. Management did not provide any documentation to

support the disbursement of these scrap sale proceeds. The director of schools advised that the department would not pursue collection; therefore, the \$1,567.60 has been written off by management.

34. Overton County – Millard Oakley Public Library

On March 2, 2012, the library director was notified by the bank that the library's bank account would soon be overdrawn. The library director questioned the deputy director who maintained this bank account for the library, and the deputy director resigned on March 2, 2012. The library director notified the Overton County Executive's Office who then informed our office of the suspected irregularities in the library's checking account.

We examined bank deposits and disbursements in the library's checking account from July 1, 2008, through March 26, 2012. Our procedures identified a cash shortage of \$5,999.53 at March 2, 2012. This cash shortage included electronic disbursements from the library's checking account for personal expenses of the deputy director totaling \$2,289.58. In addition to the personal expenses, the deputy director also collected cash and checks on behalf of a nonprofit organization, Friends of the Library; however, instead of turning the collections over to the Friends of the Library, the deputy director deposited these funds into the library's checking account in an apparent attempt to balance the library's books by replacing the cash taken from the library with the nonprofit's funds. This substitution scheme totaled \$3,709.95.

The library did not issue receipts for all collections. Instead, the library issued receipts manually only when a customer requested a receipt. Since receipts were not always issued, we could not determine whether all collections for the library and on behalf of the Friends of the Library had been accounted for properly. In addition, the library did not maintain any records indicating the breakdown of cash and checks received. We were advised that beginning May 2009, the deputy director was exclusively responsible for making bank deposits, preparing monthly collection reports, and issuing monthly checks to the Overton County Trustee.

From May 2009 through February 2012, collections were not deposited to the bank account on a current basis, which allowed cash and checks to accumulate. Prior to May 2009, an analysis of cash and check deposits indicated that cash deposited accounted for an average of 85 percent of each deposit; whereas subsequent to May 2009, cash deposited accounted for an average of 38 percent of each deposit. Deposits were taken to the bank approximately two to three times per month. Office records reflected that as many as 34 days lapsed between dates of deposits. Sound business practice dictates that all collections be deposited on a current basis to minimize the risk of fraud and abuse. The delay in depositing funds allows large amounts of cash and checks to accumulate in the office.

Electronic payments made in February 2012 totaling \$532.30 were refunded by the bank. In addition, cash totaling \$1,700, and a personal check totaling \$57.28 were returned by the deputy director. This reduced the cash shortage balance to \$3,709.95.

The following table details the cash shortage:

Month	Electronic Payments			Total
	DIRECTV	Verizon Wireless	HSBC Card Service	
September 2011	\$ 146.43	\$ 0	\$ 0	\$ 146.43
October 2011	0	375.23	0	375.23
November 2011	0	86.00	112.71	198.71
December 2011	0	203.98	368.40	572.38
January 2012	0	195.01	269.52	464.53
February 2012	0	0	532.30	532.30
Total Cash Shortage for Personal Expenses				\$ 2,289.58
Add: Friends of the Library Checks Substituted for Library Funds				<u>3,709.95</u>
Total Cash Shortage				\$ 5,999.53
Less: Funds Returned by Bank				(532.30)
Less: Cash and Check from the Deputy Director				<u>(1,757.28)</u>
Balance of Cash Shortage, March 26, 2012				<u><u>\$ 3,709.95</u></u>

35. Polk County – Office of Director of Schools

The audit of Polk County for the 2007-08 year reported a cash shortage of \$1,047.45 in the School Department, resulting from a School Department maintenance employee using a department owned welding machine and materials associated with welding for his personal benefit. The employee entered into a plea agreement on March 23, 2009, that required the maintenance employee to pay restitution of \$1,047.45 to the School Department. Restitution was subsequently received.

36. Rhea County - Office of Circuit and General Sessions Courts Clerk

The audit of Rhea County for the 2010-11 year reported a cash shortage of \$5,297 in the Office of Circuit and General Sessions Courts Clerk. Between September 28, 2011, and December 12, 2011, an employee had improperly voided 15 receipts totaling \$5,297. These funds were not credited to customers' cases or otherwise accounted for properly. On April 12, 2012, the former employee, plead guilty to theft of property over \$1,000 and paid restitution totaling \$5,297.

37. Rutherford County - Offices of County Mayor and Sheriff

The audit of Rutherford County for the 2009-10 year reported that from January 1, 2007, through August 8, 2008, an employee of the Sheriff's Department filed medical, dental, comprehensive benefits, and pharmacy claims totaling \$14,551.56 for ineligible persons. Subsequently, the employee signed a promissory note with Rutherford County to make restitution. These note payments are being withheld from the employee's bi-monthly payroll checks by the Rutherford County Finance Office. On February 3, 2012, the promissory note was liquidated.

38. Sequatchie County - Office of Sheriff

The audit of Sequatchie County for the 2006-07 year reported a cash shortage of \$8,669 in the commissary operation at the Sheriff's Department. This cash shortage resulted from commissary receipts not being deposited to the official bank account or otherwise accounted for properly. On December 18, 2008, a former employee entered into a judicial diversion agreement on charges related to this cash shortage and has agreed to pay restitution of \$8,551.26. The difference of \$117.74 (\$8,669 - \$8,551.26) between the original shortage amount and the agreed to restitution amount was written-off. The county received no restitution during 2011-12 year leaving a balance of \$7,793.26.

39. Sequatchie County - Office of County Clerk

The audit of Sequatchie County for the 2007-08 year reported a cash shortage of \$4,248.51 in the Office of County Clerk. This shortage resulted from several motor vehicle title application transactions that had been altered by an employee of the office. This former employee entered into a plea agreement on April 27, 2009. Restitution of \$50 was received for the 2011-12 year leaving an unpaid balance of \$310.00.

40. Smith County - Office of Circuit and General Sessions Courts Clerk

The audit of Smith County for the 2010-11 year reported identified a cash shortage of \$75,012.61 in General Sessions Court and \$995 in Circuit Court on September 27, 2011. These amounts include receipts collected but not deposited totaling \$64,995.36 in General Sessions Court and \$995 in Circuit Court plus receipts voided without supporting documentation of \$10,017.25 in General Sessions Court. Checks and money orders totaling \$35,596.63 and \$662 were deposited in General Sessions and Circuit Courts, on September 28, 2011, and September 30, 2011, respectively, which reduced the cash shortage to \$39,415.98 in General Sessions Court and \$333 in Circuit Court on September 30, 2011. During the 2011-12 fiscal year, Smith County received insurance proceeds totaling \$25,000 leaving an unpaid balance of \$14,748.98 at June 30, 2012. In July 2012, the county received additional insurance proceeds of \$14,248.98 leaving an unpaid balance of \$500, which represents the county's insurance deductible. In August 2012, the county issued checks to Circuit and General Sessions Courts for \$167 and \$333, respectively, to eliminate the cash shortage. A former employee of the office has been indicted for theft, and the case has been scheduled for court in December 2012.

41. Stewart County - Office of General Sessions Court Clerk

On August 1, 2012, the general sessions court clerk discovered that cash totaling \$240 was missing from the office. As a result, on August 3, 2012, the clerk informed our office of this cash shortage and filed a Fraud Reporting Form. Subsequently, our office performed an investigation; however, due to a lack of internal controls, we were unable to determine who may have taken the funds.

The following internal control deficiencies provided opportunity for these funds to be misappropriated:

- A. Employees' cash drawers were not reconciled daily. Reconciliations were performed approximately every three days when bank deposits were made. Since cash had not been reconciled between July 30 and August 1, 2012, the shortage was not discovered promptly, and we could not determine when the cash had been taken from the office.
- B. Cash drawers were left unlocked during the day and overnight. All receipts of the office remained in the unlocked cash drawers until the next deposit was made. The office door was locked at night; however, all employees had a key to the office.
- C. Numerous other individuals, as well as employees, had access to the area where the cash drawers were located.

The general sessions court clerk liquidated the cash shortage of \$240 on January 11, 2013, from personal funds.

42. Sullivan County – Observation Knob Park

On July 26, 2011, a park employee discovered that \$58 had been stolen from the park office. As a result, on August 10, 2011, the park supervisor filed a Fraud Reporting Form with our office informing us of this cash shortage. Subsequently, our office conducted an investigation; however, due to a lack of internal controls, we were unable to determine who might have taken the funds. The county's General Fund replenished the park's cash drawer for this missing money on March 22, 2012.

An employee advised that during his day shift, he locked the cash in a cabinet in the park office, and placed the key in an adjacent desk drawer. The money was apparently taken between 3:00 p.m. and 4:00 p.m. when the employee left the office to perform other duties in the park. Other employees and a day-worker had access to the office during this period. A day-worker is someone fulfilling the requirement of court-ordered community service.

The following internal control deficiencies provided opportunity for these funds to be misappropriated:

- A. Employees and a day-worker had access to the key where the money was stored.
- B. Duties were not segregated adequately in the park office. Employees responsible for maintaining accounting records were also involved in receipting and depositing. Accounting standards provide that internal controls be designed to give reasonable assurance of the reliability of financial reporting and of the effectiveness and efficiency of operations. The lack of segregation of duties is the result of management's decision based on the availability of financial resources and is a significant deficiency in internal controls that increases the risk of misappropriations.

43. Sumner County - Office of Director of Schools

As of the date of the June 30, 2011, audit, an ongoing investigation was being conducted at the Office of Director of Schools. The School Department's internal auditor informed us that an employee had purchased personal items with school funds. During the 2011-12 fiscal year, the employee's employment was terminated, the employee turned herself into police, and the employee was charged with one count of theft over \$10,000. On February 15, 2013, the former employee pled guilty to one count of theft of property between \$10,000 and \$60,000. The former employee was sentenced to six years of probation and was ordered to pay restitution of \$18,697 to the Sumner County School Department.

44. Trousdale County - Office of Clerk and Master

The Clerk and Master's Office had a cash shortage of \$300 on June 30, 2012. This cash shortage occurred because clerk and master issued a receipt to a taxpayer for the amount of delinquent taxes due but failed to collect the amount of taxes due by \$300. The clerk and master liquidated the cash shortage on December 28, 2012, by depositing personal funds to the office bank account. This shortage was the result of a lack of management oversight over risks related to safeguarding assets. This finding has been discussed with the district attorney general.

45. Unicoi County - Office of General Sessions Court Clerk

The audit of Unicoi County for the 2005-06 year reported a cash shortage of \$21,431 as of June 30, 2006, and an additional \$791 cash shortage in 2006-07 for a total cash shortage of \$22,222 as of June 30, 2007. During the 2008-09 year, the county received a check totaling \$9,330.50 in settlement of a claim filed with the former clerk's bonding company for the period ended August 31, 2006. On March 23, 2009, the County Commission voted to discontinue any litigation against a second bonding company for nonpayment of the claim. The County Commission wrote-off the remaining cash shortage on June 20, 2012.

46. Unicoi County - Office of Director of Schools

A special report dated June 28, 2010, for the period July 1, 2009, through May 25, 2010, reported a cash shortage of \$20,967.36. This cash shortage resulted from the disbursement of School Department funds for personal expenses of the School Department's finance director. The finance director resigned her position on May 25, 2010, and she liquidated the cash shortage of \$20,967.36 with personal funds on May 27, 2010. The former director of finance pled guilty to theft over \$10,000 on January 6, 2011, and was sentenced to 90 days confinement, ten years' probation, and payment of restitution of \$8,790 for the additional cost of the audit. During the year, \$1,050 was paid leaving a balance of \$7,740.

47. Warren County - Memorial Airport

A special report dated September 11, 2012, for the period July 1, 2007, through September 30, 2011, reported a cash shortage of \$20,967.36. This cash shortage consisted of the following:

Exhibit B

- A. During the period July 1, 2007, through September 30, 2011, various airport employees issued 29 receipts totaling \$4,482.44 that were not deposited with the Warren County Trustee's Office. These receipts were issued for the sale of aircraft fuel, hangar rentals, and house rentals. In all but one instance, the deposit summary worksheets that related to these 29 missing receipts appear to have been either prepared by the airport manager or subsequently altered by the airport manager. We presented the airport manager with a sample of the summary worksheets. The manager admitted that his handwriting was on the worksheets, but provided no explanation as to why the receipts had not been deposited.
- B. We examined 40 invoices that were noted in the QuickBooks system as being void without supporting documentation. We could not locate the corresponding manually issued receipts used to create these invoices. In addition, these manually issued receipts were missing from the sequentially numbered receipts maintained on file. A review of daily collection logs prepared by airport employees, as well as a review of customer accounts, indicated missing receipts for the sale of aircraft fuel (\$2,046.39) and monthly rentals (\$5,425) paid by airport tenants. In addition, there were other manually issued receipts missing that related to voids in the accounting records; however, we were not able to determine the amount of money associated with these receipts. Many of these receipts appear to have been for fuel used by the airport manager.

During our investigation, airport employees advised us that changes appearing on the daily summary logs were not in their handwriting, and in some instances, their signature had been forged. We presented a sample of these changes to the airport manager. The manager admitted that these changes were in his handwriting; however, he provided no explanation for the changes other than he must have been correcting an error.

- C. Hangar rentals totaling \$5,510 were not paid by the airport manager. An individual (lessee) rented hangar space for his personal aircraft at the airport. Due to medical reasons, the lessee had to stop flying. The airport manager approached the lessee and advised the lessee that he (the airport manager) would maintain and fly the lessee's aircraft, and in exchange, the airport manager would personally pay the hangar rental on the lessee's behalf. Each year, a new lease was entered into by the owner of the aircraft and the airport for hangar rent, with the understanding the airport manager was personally paying the rent on the hangar. The airport manager made one payment, on the lessee's behalf in February 2008, totaling \$110. No other rental payments were made on the lessee's behalf after February 2008.

The airport manager advised us that one airport commissioner had knowledge of his agreement with the lessee; however, the airport commissioner advised us he had no knowledge of this arrangement.

- D. The airport manager had a personal account at the airport to purchase aircraft fuel for the plane he flew (noted in Item C.). Based on our review of the airport manager's personal account, it appears the airport manager had

Exhibit B

routine charges and payments for aircraft fuel on his personal account through September 2008. After this date, we noted only one fuel purchase was charged to his personal account. The airport manager advised us that he flew the plane often for airport business and for personal use. However, there were no documented business uses of the plane on file at the airport.

During the period we investigated, we noted 25 instances of receipts totaling \$2,061.01 that were issued in the name of the airport manager. The corresponding QuickBooks invoices for these receipts were later voided, and never charged to the airport manager's personal account.

- E. The airport maintained an account for miscellaneous purchases of fuel for maintenance equipment and other small miscellaneous items required to operate the airport. Our review of this account for the period revealed that six receipts were issued for the sale of aircraft fuel totaling \$482.11. In each instance, this aircraft fuel was used in the aircraft flown by the airport manager (noted in Item C.). In addition, we noted nine receipts in the name of the airport manager totaling \$784.73 that were charged to the airport's account rather than the airport manager's personal account. No documented business purpose was on file to support these charges.

The following table summarizes the cash shortage of at least \$20,791.68:

A. Receipts not deposited with the county trustee	\$ 4,482.44
B. QuickBooks voided invoices for fuel sales	2,046.39
B. QuickBooks voided invoices for rentals	5,425.00
C. Lessee hangar rent not paid	5,510.00
D. QuickBooks voided invoices for the airport manager	2,061.01
E. Unpaid fuel used by the airport manager	482.11
E. Receipts charged to the airport for personal use	<u>784.73</u>
 Total Cash Shortage	 <u>\$ 20,791.68</u>

48. Wayne County - Office of Sheriff

The audit of Wayne County for the 2010-11 year reported a cash shortage of \$6,261.87 from the sale of a surplus 2007 Ford Explorer XLT through an internet auction site. This cash shortage resulted from sale proceeds being receipted but not being deposited to the official bank account or being accounted for otherwise. On January 12, 2012, the county received insurance proceeds, which liquidated the cash shortage.

49. Williamson County - Recreation Department

The audit of Williamson County for the 2005-06 year reported a cash shortage of at least \$45,037.43, as of June 30, 2006, at the Fairview Recreational Center. This cash shortage resulted from collections that were not deposited or otherwise

accounted for properly. On October 6, 2008, the defendant pled guilty and was sentenced to four years' probation and ordered to pay restitution to Williamson County. On October 7, 2008, the defendant signed a promissory note with Williamson County. The promissory note states that the debtor shall pay the principal amount in full no later than 48 months from November 1, 2008. As of June 30, 2012, this individual had paid restitution totaling \$9,031.50, leaving an outstanding cash shortage of \$36,005.93.

50. Williamson County - Office of County Clerk

The audit of Williamson County for the 2008-09 year reported a cash shortage of \$3,386.18 in the Office of County Clerk. In December 2008, the county clerk discovered that collections from a title application transaction totaling \$1,877.68 had been diverted for an employee's personal use. On December 29, 2008, the employee admitted to fraudulently substituting funds to cover the diversion of funds, and the county clerk terminated the employee for mishandling the funds. Subsequently, the county clerk's bookkeeper and auditors discovered two additional title applications totaling \$1,508.50 had been stolen. Therefore, the amount of funds diverted from the office totaled \$3,386.18 (\$1,877.68 plus \$1,508.50). On November 10, 2009, the defendant pled guilty to one count of theft over \$1,000 and one count of forgery. The defendant was sentenced to two years' probation, and ordered to pay restitution of \$3,386.18 to Williamson County. As of June 30, 2012, no restitution had been paid, leaving the outstanding cash shortage of \$3,386.18.

51. Williamson County - Animal Control Department

A special report dated July 26, 2010, for the period May 17, 2005, through March 31, 2010, reported a cash shortage of at least \$106,446.17 from receipts that were not deposited with the county or otherwise accounted for properly. On November 15, 2010, the employee pled guilty to theft over \$60,000 and was sentenced to eight years' confinement, which was suspended to eight years' probation, and was ordered to pay restitution of \$106,446.17. As of June 30, 2012, the individual had paid \$79 restitution, leaving the outstanding cash shortage of \$106,367.17.

52. Williamson County - Animal Control Department

On March 16, 2012, the director at the Animal Control Department informed the county Finance Office that cash from an outside adoption event totaling \$130 was missing. As a result, on March 19, 2012, the Finance Office filed a Fraud Reporting Form with the state Comptroller's Office. Subsequently, auditors conducted an investigation; however, due to a lack of internal controls, auditors were unable to determine who may have taken the funds.

Collections received at outside adoption events are sealed in envelopes with the pet's name noted on the envelope. These envelopes are delivered to the Animal Control Department to be entered into its accounting system. On March 5, 2012, five envelopes were purportedly delivered to the Animal Control Department and left at the front counter. The funds were entered into the accounting system later in the day. Later that day while conducting the daily animal inventory, it was noted that a

dog was not at the facility and had actually been adopted at the outside event. However, there was no related envelope with funds nor was the pet removed from the pet inventory listing. The employee who entered the collections into the system stated that she had only receipted four envelopes; therefore, one envelope containing \$130 was missing. Since the county is self-insured, these funds have been written off.

The following internal control deficiencies provided opportunity for these funds to be misappropriated:

- A. Funds were not properly safeguarded at outside adoption events nor were they safeguarded upon return to the Animal Control Department.
- B. All employees and customers had access to the envelopes left at the front counter.

53. Twenty-fourth Judicial District Drug Task Force

The Drug Task Force (DTF) had a cash shortage of \$5,565 at March 25, 2011. This cash shortage is composed of \$4,065 that we reported in Finding 09.01 in the Review of Funds Administered by District Attorneys General at June 30, 2009, plus an additional \$1,500 of cash seized in three cases the Tennessee Department of Safety awarded to the DTF that we could not trace to the DTF's accounting records or bank deposits. We requested additional information from the DTF related to these cases and the location of the \$1,500; however, DTF officials could not locate the funds and had no explanation as to its disposition. The \$5,565 cash shortage has been written off by the task force board since the shortage could not be tied to any individual.

Division of Local Government Audit
Summary of Other Thefts and Judicial Actions in County Offices/Departments
As Reported in Annual Financial Reports for the Year Ended June 30, 2012,
and Certain Special Reports

County	Description
1. Bedford	Questionable purchases totaling \$46,806.60 were made from Emergency Communications District funds.
2. Giles	A Highway Department backhoe valued at \$31,666 was reported stolen.
3. Hardin	Employees improperly disposed of scrap metal from the school bus garage.
4. Hawkins	A cafeteria manager took cafeteria funds for personal use.
5. Lauderdale	Sheriff's Department undercover drug funds and hydrocodone tablets were missing from the drug agent's office.
6. Lewis	The road superintendent and a Highway Department employee were indicted on ten separate counts.
7. Lincoln	Unapproved bonuses totaling \$293,779 and other questionable practices were discovered at the Lincoln County Board of Public Utilities.
8. Montgomery	Employees of the Animal Control Department took fuel for personal use.
9. Morgan	Soil Conservation District administrative secretary allegedly used official funds for personal use totaling at least \$53,412.78.
10. Sevier	An employee of the Preservation of Records Department stole an office computer.
11. Tipton	Employees of the landfill improperly disposed of scrap metal.
12. Unicoi	The sheriff was indicted by the grand jury on several counts.
13. Wilson	The Joint Violent Crimes Task Force and the Safe Streets Task Force had a cash shortage of \$34,708.77.

Division of Local Government Audit
Explanations of Other Thefts and Judicial Actions in
County Offices/Departments (1)
As Reported in Annual Financial Reports for the Year
Ended June 30, 2012, and Certain Special Reports

1. Bedford County – Emergency Communications District

A special report dated March 25, 2013, was issued for the period July 1, 2005, through March 31, 2012, that reported questionable purchases totaling \$46,806.60 from Emergency Communications District funds. These purchases involved questionable credit card charges, and numerous credit card charges made with little or no documentation of file to support the purchase. We question whether many of these disbursements and charges were for a business-related purpose.

2. Giles County - Office of Highway Commissioner

On February 23, 2012, the Highway Department reported to the state Comptroller's Office the theft from a job site of a 2005 New Holland backhoe valued at \$31,666. On March 22, 2012, Giles County received a check from its insurance carrier for \$30,666, the appraised value less a \$1,000 deductible. A police report has been filed with the Giles County Sheriff's Department, and the matter is still under investigation.

3. Hardin County - Office of Director of Schools

On February 16, 2012, auditors received allegations concerning the removal of scrap metal from the bus garage by employees of the School Department. Employees admitted to the department's chief financial officer and director of personnel that they had improperly disposed of scrap metal but denied selling it for personal gain. Auditors could not determine the value of the scrap metal or if any revenue had been received from its disposal. This disposal could have resulted in a loss of revenue to the School Department. Since this incident, the School Department has installed security cameras and a recycling bin at the bus garage and established procedures to monitor the disposal of scrap metal.

4. Hawkins County - Office of Director of Schools

On March 8, 2012, the school nutrition director informed auditors of suspected irregularities by the cafeteria manager. Several parents had expressed concerns about their child's meal patterns because, in some instances, student accounts reflected no activity. Parents can subscribe to an online payment and monitoring program that allows parents to electronically deposit funds into their child's account and to monitor their child's eating and spending practices. On March 7, 2012, the cafeteria manager admitted taking cafeteria funds and was placed on leave without pay status pending an investigation. On June 6, 2012, the cafeteria manager's employment was terminated. On October 3, 2012, the cafeteria manager pled guilty

to theft under \$500, received one year of probation, and was fined \$100. We could not determine the amount of the cash shortage due to the deficiencies noted below.

Our investigation revealed that the following deficiencies contributed to the theft:

- A. There were no prenumbered receipts, collection logs, or other documentation available to account for the total amount of cash that was actually received by the cafeteria. The receipt book used in the cafeteria to account for collections was missing. Classroom teachers were not required to prepare a collection log or other collection record documenting cafeteria collections made and remitted to the bookkeeper. Additionally, the school bookkeeper failed to count cafeteria collections from teachers and issue receipts at the time the collections were remitted. Teachers would deliver cafeteria collections to the school bookkeeper or the cafeteria manager.
- B. There were meal count variances between production reports and computer meal count records. A review of the cafeteria's computerized records indicated there were less meals served than what was recorded on the production reports manually generated by the cafeteria manager. The computerized meal count report is generated based on the number of meals that were entered into the register. In addition, several production reports that were reviewed appeared to be duplicates of prior reports.
- C. The cafeteria manager used an old "milk recipe" from the 2010-2011 school year. A milk recipe is used to record the amount of the different types of milk that is planned and served each day on the production report and is an average based on milk consumption from the first three weeks of a new school year.

5. Lauderdale County - Office of Sheriff

On April 26, 2012, the Sheriff's Department drug agents discovered that \$460 in confidential undercover drug funds and 20 hydrocodone tablets were missing from the drug agents' office. According to an incident report filed by the Sheriff's Department, the door to the drug agent's office and an evidence file cabinet and closet appeared to have been forced open. The sheriff contacted the district attorney general and Comptroller of the Treasury to report the theft. An investigation was conducted by the Tennessee Bureau of Investigation; however, because of a lack of evidence, it could not be determined who was responsible for the theft. Therefore, no charges have been filed in connection with this incident. The \$460 is below the county's insurance deductible; therefore, the county will likely not recover these funds.

6. Lewis County - Office of Road Superintendent

On November 7, 2011, pursuant to an investigation of the Lewis County Highway Department performed by the Tennessee Bureau of Investigation, the Road Superintendent, Ronnie Darnell, and a Highway Department employee, Pete Burns, were indicted on ten separate counts. Ronnie Darnell was indicted on one count of unlawful disposal of hazardous waste, one count of theft of property under \$500, two counts of theft of property over \$1,000, one count of theft of property over \$10,000, and five counts of official misconduct. Pete Burns was indicted on one count of unlawful disposal of hazardous waste. An arraignment hearing was held on December 19, 2011. Both men pled not guilty. A trial date has been scheduled for June 2013.

7. Lincoln County - Board of Public Utilities

As a result of numerous allegations, the state Comptroller's Office conducted an investigative audit of the Lincoln County Board of Public Utilities (LCBPU) for the period January 1, 2008, through December 31, 2011. A special report was issued on February 28, 2013. This special report noted the following questionable practices:

- A. The LCBPU paid unapproved bonuses totaling \$293,779.22.
- B. The LCBPU included bonus earnings of employees with regular pay to the Tennessee Consolidated Retirement System.
- C. Board members were overpaid \$12,375.90 for board meetings, attending work sessions, and road trips.
- D. The LCBPU paid questionable credit card charges of \$10,410.95.
- E. The LCBPU paid \$1,415.41 in questionable travel reimbursements to board members and employees.
- F. The LCBPU gave unauthorized water adjustments to volunteer firemen totaling \$3,895.
- G. The former superintendent of the LCBPU violated the water adjustment policy by giving questionable adjustments of \$5,523.12.
- H. The former superintendent of the LCBPU gave questionable water bill adjustments and tap fee adjustments of \$3,652.23 to employees and board members.
- I. The LCBPU has inadequate controls over supplies and inventory.
- J. Adequate leave records were not maintained on the former superintendent, and leave policies were not followed.

- K. Property of the LCBPU was being stored on private property, and a trolling motor has not been returned.
- L. A member of the utility board violated the conflict of interest statute and contracted with a citizen for work paid for by the utility.
- M. LCBPU has not utilized Lincoln County's central purchasing authority.

8. **Montgomery County - Animal Control Department**

The Animal Control Department maintained a separate fuel card within each of its four trucks. Eight department employees had access to these four trucks; however, each employee had their own personal pin number for use with the fuel cards. As the result of a citizen complaint, the county mayor and the Sheriff's Department conducted an internal investigation and discovered one employee used a county fuel card to purchase an undetermined amount of gasoline for his personal vehicle. The employee admitted to Sheriff's Department investigators that he had used the fuel card for personal use, and his employment was terminated on February 24, 2012. The investigation also revealed that several employees used other employees' pin numbers when purchasing fuel. The Comptroller's Office was not notified of this theft until May 14, 2012. Section 8-24-503, *Tennessee Code Annotated (TCA)*, requires that "a public official with knowledge based upon available information, which reasonably causes him/her to believe that a theft, forgery, credit card fraud, or any other act of the unlawful taking of public money, property, or services has occurred shall report such information in a reasonable amount of time to the Office of the Comptroller of the Treasury." Section 8-24-502, *TCA*, defines a reasonable amount of time to make this report as not exceeding five days. The county mayor submitted a fraud reporting form to our office on June 12, 2012. Since employees used other employees' pin numbers, we could not determine the amount of fuel that was taken for personal use.

9. **Morgan County - Soil Conservation District**

On October 26, 2011, as a result of the bank alerting the district that their bank account was overdrawn, our office was contacted by the State of Tennessee Department of Agriculture, who provided information regarding possible misappropriation of state funds by the administrative secretary for the Morgan County Soil Conservation District. The allegations involved missing funds from the district's bank account. During the period July 1, 2007 through October 28, 2011, we compared receipts with deposits and reviewed payroll and non-payroll expenditures. During our investigation, the chairman of the board advised us that since at least 2008, his signature had been forged on checks and timesheets that were on file. According to the chairman of the district's Board of Directors, the administrative secretary took care of all daily operations, including mail processing, filing, and bookkeeping.

On October 20, 2011, the Board of Directors placed the administrative secretary on unpaid administrative leave pending the results of our investigation.

On January 30, 2012, the administrative secretary advised the Tennessee Bureau of Investigation that she had taken funds from the Morgan County Soil Conservation District for her personal use and forged the chairman of the board's signature.

The cash shortage of at least \$53,412.78 resulted from the following:

- A. From September 2010 through October 2011, seven checks totaling \$26,958.47 were disbursed from the district's checking account payable to various relatives of the administrative secretary. The secretary forged the endorsement on these seven checks and deposited the checks into her personal bank account. In October 2011, one of the seven checks totaling \$7,100 was returned by the bank for insufficient funds; therefore, the net of \$19,858.47 was obtained improperly.

Also, during this period, the administrative secretary used a kiting scheme to remove monies from the office. Kiting occurs when a check is drawn against uncollected or insufficient funds with the intent of creating a false balance in the bank account by taking advantage of the time lapse required for processing. The administrative secretary deposited checks totaling \$32,000 into the bank account. These checks were purportedly payable from several of her family members, which temporarily increased the bank balance; however, these deposited checks were subsequently returned for insufficient funds.

- B. From December 2007 to October 2011, we questioned the validity of numerous vendor checks totaling \$11,309.03 and payroll checks totaling \$11,840.17 that were paid to the administrative secretary without supporting documentation. The administrative secretary was responsible for preparing all checks in the office and would record fictitious entries in the accounting records in an attempt to conceal the true purpose of the disbursements.

A contributing factor that allowed these disbursements to go undetected was that the chairman of the Board of Directors, who was responsible for approving the timesheets, did not actually approve them. He advised us that his signature had been forged on the timesheets. Furthermore, numerous timesheets were not on file.

- C. During the period examined, we noted that disbursements totaling \$736.21 had no supporting documentation, and we could not ascertain whether these disbursements were related to the Soil Conservation District. These disbursements were to Darnell's Market, UPS, Dollar General, Morgan Farm Market, and Roane Newspaper. Failure to require adequate documentation for purchases increases the risk of fraud and abuse from unauthorized purchases.

- D. From December 2007 to October 2011, the administrative secretary did not deposit receipts totaling \$2,046.40; however, she later deposited \$1,585.70 in funds which were not receipted. In addition, our investigation revealed significant delays in depositing daily collections into the district's bank account. Office records reflected that as many as 45 days lapsed between the date some funds were collected and the date the funds were deposited. Section 9-4-301, *Tennessee Code Annotated*, provides that it is the duty of every department, institution, office, and agency of the state government collecting or receiving state funds, to deposit them immediately into the treasury or to the account of the state treasurer in a bank designated as a state depository or to the appropriate departmental account. The delay in depositing funds allows large amounts of cash and checks to accumulate in the office. Also, as a result of missing receipt books, we were unable to ascertain if all collections at the district office were properly receipted and deposited.
- E. From May 2011 to October 2011, our review of bank statements indicated that due to insufficient funds, the district incurred service charges totaling \$522.50.

The following table details the shortage:

A. - Checks to family members	\$	26,958.47
B. - Vendor checks to the administrative secretary		11,309.03
C. - Payroll checks to the administrative secretary		11,840.17
D. - Undocumented checks		736.21
E. - Receipts not deposited		2,046.40
F. - Bank charges		522.50
Total cash shortage, October 28, 2011	\$	<u>53,412.78</u>
Less: cash not receipted but deposited 4/4/11	\$	(1,585.70)
Less: check returned - insufficient funds 10/13/11		(7,100.00)
Remaining Cash Shortage, October 28, 2011	\$	<u><u>44,727.08</u></u>

10. Sevier County - Preservation of Records Department

The director of the Sevier County Preservation of Records Department filed a fraud reporting form with the state Comptroller's Office on September 6, 2011, alleging the theft of a desktop computer. However, the theft had already been investigated by the Sevier County Sheriff's Department in August. This investigation resulted in a county employee's plea of guilty to theft on December 8, 2011. The employee received one year of probation and was ordered to pay court costs. The desktop computer was returned to the Records Department on August 22, 2011.

11. Tipton County - Landfill

Auditors received allegations that employees of the Tipton County Landfill were removing scrap metal from the landfill and selling the scrap metal for personal gain. We interviewed 14 employees at the landfill with nine employees admitting to removing scrap metal from the landfill for personal use, and two employees admitting to selling the scrap for personal gain. However, we are unable to determine the amount and value of the scrap metal removed by employees. The director of the Tipton County Public Works Department stated that none of the employees were authorized to remove scrap metal from the landfill. He also stated that he had met with employees on several occasions to discuss the policy that employees could not remove scrap metal from the landfill. The sale of scrap metal is a revenue source for the county; therefore, the removal of this scrap metal by employees resulted in a loss of county revenue. This finding has been discussed with the district attorney general.

12. Unicoi County - Office of Sheriff

On October 14, 2011, Sheriff David Kent Harris was indicted by the Unicoi County Grand Jury and charged with six counts of official misconduct and one count each of criminal simulation, theft, attempted aggravated assault, and tampering with evidence. Sheriff Harris resigned from office effective March 1, 2012. Prosecution on the charges resulted in a mistrial on August 2, 2012, and a new trial has been ordered.

13. Wilson County - Joint Violent Crimes Task Force and the Safe Streets Task Force

A special report dated July 3, 2012, on Wilson County's participation in the Joint Violent Crimes Task Force and the Safe Streets Task Force for the period January 1, 2008, through May 31, 2011, reported cash totaling \$34,708.77 that had been awarded to the Wilson County Sheriff's Department from 14 drug cases was either not deposited or properly accounted for. Of that amount, \$25,908.77 is unaccounted for while \$8,800 was deposited by the Lebanon City Police into their drug bank account, instead of with Wilson County. Section 53-11-415, *Tennessee Code Annotated*, requires funds received from drug enforcement activities to be paid to the county trustee and for the funds to be deposited in a special revenue fund maintained by the county.

Footnote:

- (1) These findings are the result of other thefts or misappropriations of assets. These findings are not included on the Schedule of Cash Shortages, Exhibit A.